

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Office of Public Health
Department of Health and Hospitals
State of Louisiana
New Orleans, Louisiana

December 17, 2003



Financial and Compliance Audit Division

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Senator J. "Tom" Schedler, Chairman
Representative Edwin R. Murray, Vice Chairman

Senator Robert J. Barham
Senator Lynn B. Dean
Senator Jon D. Johnson
Senator Willie L. Mount
Representative Rick Farrar
Representative Victor T. Stelly
Representative T. Taylor Townsend
Representative Warren J. Triche, Jr.

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Twelve copies of this public document were produced at an approximate cost of \$23.16. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

**OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**
New Orleans, Louisiana

Management Letter
Dated November 17, 2003

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

December 17, 2003



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

November 17, 2003

**OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**
New Orleans, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2003, we considered the Office of Public Health's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the office's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Office of Public Health is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The office's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on the Office of Public Health for the year ended June 30, 2002, we reported a finding relating to inadequate controls over movable property, which has been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2003.

Improper Allocation of Audit Costs

The Office of Public Health (OPH) improperly allocated audit costs invoiced by the Louisiana Legislative Auditor's Office to federal programs under its administration. The amount allocated was in addition to those legislative audit costs allowed under the Louisiana Statewide Cost Allocation Plan. The allocation error resulted in federal overcharges totaling approximately \$10,978, and this represents questioned costs, which management indicates was corrected in November 2003.

Office of Management and Budget (OMB) Circular A-87 establishes cost principles designed to ensure that federal programs bear only their fair share of central service costs. Included in this circular are regulations governing the preparation and application of cost allocation plans to distribute the costs of certain central state governmental

LEGISLATIVE AUDITOR

OFFICE OF PUBLIC HEALTH DEPARTMENT OF HEALTH AND HOSPITALS STATE OF LOUISIANA

Management Letter, Dated November 17, 2003

Page 2

services among the various federal programs. OMB Circular A-87, Attachment A, Section C (1) provides a list of criteria that a cost must meet to be an allowable cost chargeable to federal programs. Among these criteria are requirements that the cost be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the government unit.

The error occurred because audit costs allocated by the Louisiana Legislative Auditor's Office were incorrectly coded by the fiscal office to the reporting category used to allocate executive overhead charges to state and federal programs. In addition, as legislative audit costs had already been assessed indirectly through the Statewide Cost Allocation Plan, any direct charge of legislative audit costs results in an overcharge to federal programs.

OPH management should take measures to ensure that audit costs allocated by the Louisiana Legislative Auditor's Office are not charged directly to federal programs. Management should also ensure that legislative audit costs charged to federal programs do not exceed the maximum allowed under the statewide allocation plan. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Controls Over Information Technology

OPH has not established adequate controls over the assignment and monitoring of access given to users of the Integrated Statewide Information Systems (ISIS) - Advantage Financial System (AFS). In addition, OPH has not been performing monthly reconciliations of payroll expenditures between the ISIS/HR and AFS systems. Good internal control should include procedures that would ensure that access to the Information Technology (IT) systems is disabled in a timely manner when users terminate employment. The internal control should also include procedures for monthly review and reconciliation of payroll expenditures. During a review of IT user controls for ISIS-AFS, we found that nine former employees had access to the ISIS-AFS system after separation from OPH. Payroll expenditure reconciliations have not been performed since the implementation of ISIS/HR in 2001.

Management has not placed sufficient emphasis on the timely removal of IT system access for terminated employees and on the reconciliation of payroll expenditures. The failure to remove system access for terminated employees and the failure to perform expenditure reconciliations in an on-line data entry environment could result in unauthorized system access and/or untimely detection of fraud or errors that may have occurred during the processing of transactions.

LEGISLATIVE AUDITOR

OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA

Management Letter, Dated November 17, 2003

Page 3

Management should develop a system of internal control that would ensure timely removal of user access to ISIS-AFS system for terminated employees. OPH should also establish procedures for the reconciliation of payroll expenditures between ISIS/HR and AFS. Management concurred in part with the finding and recommendation and outlined a plan of corrective action. Management did not concur that the ISIS/HR and AFS systems needed to be reconciled because the two systems are integrated and contain the same information (see Appendix A, page 2).

Additional Comment: While the ISIS/HR and ISIS/AFS systems are electronically linked and should, on the whole, contain the same payroll information because payroll data from the ISIS/HR system feeds into the ISIS/AFS system, some small differences did occur. The differences may stem from system changes, human error, mechanical failure, or result merely because of the nature of the payroll transaction(s) processed. If monthly reconciliations between the two systems are not performed, the likelihood increases that material differences could occur and remain undetected.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the office should be considered in reaching decisions on courses of action. The finding relating to the office's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the office and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with the first name "Grover" and last name "Austin" clearly distinguishable.

Grover C. Austin, CPA
First Assistant Legislative Auditor

KML:JR:PEP:dl

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



M.J. "Mike" Foster, Jr.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



November 10, 2003

Grover C. Austin, CPA
First Assistant Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Austin,

The following is my response to the audit finding entitled **Improper Allocation of Audit Costs:**

The Department of Health and Hospitals Office of Public Health concurs that the Legislative Auditor's invoice for State Fiscal Year 2003 was incorrectly coded to an allocation pool that resulted in \$10,978 of overcharges to federal programs.

A correcting journal entry crediting the federal programs is scheduled for input into the accounting system on November 12, 2003. The contact person for this corrective action is Edward A. Holmberg III.

The cause of this finding was the result of a misrouting of the Legislative Auditor invoice. An approved, but uncoded invoice was routed directly to the OMF Accounts Payable Section where the payer applied the usual allocation coding for an Executive Overhead Organization, from which this invoice is paid. In all previous years, the invoice was directly routed to the Fiscal Administrator's Office, which then authorized the proper alternate coding required to remove the charge from the allocation process.

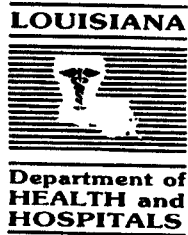
To prevent a reoccurrence of this finding, a verbal request was made to the on site Legislative Auditor to send future invoices directly to the Fiscal Administrator's Office who will in turn secure the proper OPH approvals and authorize the alternate coding to prevent the allocation of these costs. Also, on October 20, 2003 the Accounts Payable Section Manager was given a written listing of all interagency invoices, including the Office of Legislative Auditor, that require the prior approval of the Fiscal Administrator. And finally, this item was added to a year-end close checklist to assure compliance.

Sincerely,

Sharon Howard
Assistant Secretary
Office of Public Health



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



M.J. "Mike" Foster, Jr.
GOVERNOR

David W. Hood
SECRETARY

November 3, 2003

Grover C. Austin, CPA
First Assistant Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Austin:

This letter is in response to your correspondence of October 20, 2003, and the audit finding for the Office of Public Health.

We concur that current procedures for monitoring access given to users of ISIS – Advantage Financial System (AFS) are inadequate, and we are developing a corrective action plan. The OPH Human Resource office will maintain a list of employees with access to ISIS-AFS. As separations are processed in ISIS-HR, the names of those employees who have access to ISIS-AFS will be sent to the contact person at DHH/OMF to disable access. This will be done monthly. The procedure will be the responsibility of the Human Resource Director, Joan Ward and should be implemented by December 1, 2003.

However, we do not concur with the individual finding regarding monthly review and reconciliation of payroll expenditures. The ISIS-Human Resources system and the ISIS-AFS system are integrated, and these two systems contain the same information.

If you have any questions, please contact me at 504/568-5050.

Sincerely,

Sharon G. Howard
Assistant Secretary

SH/JW